cityconfidential
sorting the bulls from the bears

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More working at home could help GetBusy

On 5 May GetBusy (66p), a global Document Management and Productivity Software business, provided an update on trading to coincide with the company's AGM. This news was encouraging and in particular the very high level of recurring revenue is bound to be helpful in the coming months. Recent disruption has highlighted some of the benefits of GetBusy's offering, which includes the provision of highly secure forms of digital document distribution, workflows and client chat. The company's long term future looks as bright as ever.

The new financial year is said to have started well, with double digit revenue growth generated in the first four months of the year. Recurring revenue and total revenue grew by 20% and 15% respectively on a constant currency basis. Recurring revenue represented 90% of total revenue.

The immediate impact of the pandemic on the company's customers has been mixed. Accountants and bookkeepers, which represent around 60% of the revenue base, have a diversity of clients and so their fortunes are in turn reliant on their specific client base. GetBusy has no material direct exposure to the retail, leisure or transport industries. There has been some stretching of payment terms by customers in the UK with a number of customers moving from annual subscription plans to monthly plans. On a more positive note, no single customer accounts for more than 1% of recurring revenue.

A number of downside scenarios on revenue have been modelled to ensure that there is sufficient working capital within the business. This detailed planning has left the company confident that it is sufficiently resilient to withstand the current crisis. Changes to people's working lives over the last couple of months have highlighted the benefits of fully digitised, paperless work practices that GetBusy's document management products allow. The sharp increase in remote working may ultimately mean that growth in the medium to long term is greater than previously forecast. In the more immediate future, revenue of £13.8m and an adjusted loss of £0.6m continue to look like sensible forecasts for 2020. We rate the shares as a BUY.

EMIS better positioned than most

Very few companies are thriving in the current situation but EMIS Group (1050p) appears to be coping relatively well. It was the company's AGM on 6 May and at that time the leading provider of connected healthcare software and systems announced that trading for the year to date is in line with expectations.

EMIS Group's solutions are widely used across every major UK healthcare setting. There are two core business segments. EMIS Health is a supplier of innovative integrated care technology to the NHS. This includes primary, community, acute and social care. EMIS Enterprise concentrates on growth in the business-to-business technology sector within the healthcare market. This covers management of medicines, partner businesses, patient-facing services and UK healthcare blockchain.

The company is continuing to meet service level obligations but has also dedicated a team to respond to urgent requests from NHS and Community Pharmacy customers for functionality changes and new patient-related, data-driven insights. It continues to have market-leading positions with high levels of recurring revenue. It remains in a strong financial position, with the expected normal seasonal cash inflows increasing the cash position to £40.0m at 30 April 2020. There is no bank debt and undrawn banking facilities are up to £60.0m. The 2019 final dividend payment of 15.6p was paid as planned this week.

Given the strength of the business model and cash position, short-term cost-saving measures have not been necessary. We have long been impressed by EMIS Group but the quality of the business is obvious and has generally been reflected by a premium rating. Expectations for the full year have remained unchanged and given the severe impact other companies are having to deal with this is extremely reassuring. The shares are a LONG TERM BUY.

Market Indices at 12 May 2020

Index	Value
FTSE 100	5,994.77
FTSE 250	16,173.04
FTSE All Share	3,294.63
FTSE AIM All Share	824.56
Dow Jones Ind Av	23,764.78
S & P 500	2,870.12
Nikkei 225	20,267.05

Interest Rates

UK:	0.10%
ECB:	0.00%
US:	0.00%

Currency Rates

£/$:	1.23
£/€:	1.13
€/$:	1.08
£/A$:	1.89

Commodity Prices

Oil (Brent Crude):	$25.49bbl
Gold:	$1,694oz
Copper:	$5,231/tonne

10-year government bond yields

US	0.66%
UK	0.23%
Germany	(0.53)%
Japan	(0.02)%

Leaders & Laggards

29 April 2020 - 12 May 2020

The best and worst performing of our recent tips:

1. Tandem Group	260p + 82.5%
2. Vertu Motors	27.65p + 16.4%
3. Xpediator	25p + 11.1%

1. Norcros	143p - 15.8%
2. Flowtech Fluidpower	71.5p - 13.9%
3. Belvoir Group	105.5p - 11.3%

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UP Global Sourcing (UPGS) - 54.1p

SECTOR – HOUSEHOLD GOODS
RECOMMENDATION – SPECULATIVE BUY

We have tipped UP Global Sourcing before and volatility in the share price means that there is another opportunity to invest. The company was hit by the Covid-19 pandemic earlier than many others based in the UK given that the majority of manufacturing is based in China and the company noted in a trading update on 10 February that it was closely monitoring developments with the coronavirus outbreak there. The extension of the Chinese New Year holiday was expected to cause production delays. It noted at the time that it has extensive experience of managing supply chain disruptions in China, including those caused by previous viral outbreaks. The spread of Covid-19 subsequently led to fears over demand for the company's products but it appears that these worries are now receding to some extent. The share price has already rallied strongly from a March low of 31p but there could be further to go in a short period of time.

The company is known as Ultimate Products and is an owner, manager, designer and developer of recognisable brands focused on the home. It sells to over 300 retailers across 38 countries, covering six product categories. These are Audio, Heating and Cooling, Housewares, Laundry, Luggage and Small Domestic Appliances. Brands include Beldray, Intempo, Salter, Constellation and Progress. The company currently has licence agreements in place granting it exclusive use of the Russell Hobbs trademark for cookware but not electrical appliances and the Salter trademark for electrical items and cookware but not scales.

Products are sold to large national and international multi-channel retailers as well as smaller national retail chains. This includes discount retailers, supermarkets, general retailers and online retailers. Best-selling products include frying pans, mugs and speakers. Ultimate Products was founded in 1997 and is headquartered in Oldham, Greater Manchester. It has design, sales, marketing, buying, quality assurance, support functions and warehouse facilities across two sites. Manor Mill, which is the head office, includes a 20,000 sq ft showroom that showcases each of its brands. There are also offices and showrooms in Guangzhou, China and in Cologne, Germany.

Interim results were released on 30 April. Revenue for the six months ended 31 January 2020 increased by 2.8% to £67.7m (2019: £65.8 m). Sales to discounters fell by 16.5% due mainly to the cessation of business with the company's largest German customer as its parent company undertook a strategic review. Ongoing progress with supermarkets in both the UK and increasingly in Europe led to 45.4% growth in revenue. Online platforms showed ongoing and significant growth, with revenue up 25.5%. Online accounted for 11.3% of overall revenue, up from 9.3% in the same period a year earlier. The long-term target is over 20% and the growth rate for online has increased during the lockdown, with particularly strong sales in cleaning and laundry products. After strong growth in prior periods, international revenue fell by 10.2%. The international business is seen as a key priority, both as a growth opportunity in its own right and to provide strategically planned diversification away from the UK market.

Gross margin increased to 23.6% (2019: 22.4%) as a result of a changed customer mix and continued product innovation. The underlying EBITDA margin remained steady at 10.7% (2019: 10.6%). As a result, underlying EBITDA for the period increased by 3.5% to £7.2m (2019: £7.0m) and underlying profit before taxation increased by 4.8% to £6.2m (2019: £5.9m). Diluted earnings per share edged up to 5.9p from 5.8p in the corresponding period a year earlier.

Net cash from operations for the period was £6.8m (2019: £2.2m), an increase of £4.6m or 213%, as working capital levelled out and there was a better conversion of EBITDA into operating cashflow. Net bank debt as at 31 January 2020 was £11.2m, down from £14.0m as at 31 January 2019, a reduction of £2.8m or 19.9%, as a result of the increase in retained earnings and stable working capital. The net bank debt/underlying EBITDA ratio at 31 January 2020 was 1.0x (31 July 2019: 1.3x, 31 January 2019: 1.5x) based on underlying EBITDA for the 12 months to 31 January 2020. Comfortable headroom has been maintained within bank facilities, with headroom of £13.2m as at 31 January 2020 (31 July 2019: £10.1m, 31 January 2019: £10.5m).

The stated dividend policy is to distribute 50% of adjusted profit after tax with a third paid as an interim dividend and the balance as a final dividend. However, the interim dividend has been deferred to conserve cash under current circumstances. Looking at historic dividend payments, there is scope for the company to provide an above average dividend yield in the medium to long term.

Until early March trading was in line with expectations despite the supply chain challenges in China. Demand side issues which followed now mean that a significant drop in revenue is anticipated in the second half compared to previous expectations. This will impact overall profitability for the full year but the immediate future is volatile and unpredictable. Sales via online and to retailers that remain open are continuing at a reduced level. Total invoiced revenue for the current year as at 24 April was £85.9m and there was an order book for the remainder of the year of £18.1m, although the risk of further deferrals and cancellations has been duly noted.

It goes without saying that the company is facing some considerable uncertainties in the coming months. However, it appears to be agile enough to cope and some of the products which it supplies could be in heavy demand given the restrictions that people are facing. These products also tend to be at the affordable end of the price spectrum so even in tough economic conditions there should be some degree of resilience. Overall it appears that the share price has further to recover. There is likely to be volatility but based on fundamentals the shares look undervalued. We believe that on balance a SPECULATIVE BUY rating is appropriate and strong capital growth in the coming months is likely but not certain.

Share Price: 54.1p
Market Capitalisation: £44.5m
2019/20 Share Price Range: 98p/31p
Website: www.upgs.com

Year Ending 31 July	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
2018	87.6	5.23	5.0	10.8	2.7	5.0
2019	123.3	8.39	8.1	6.7	4.1	7.6
2020 (est)	93.0	3.61	3.5	15.5	-	-

For more details on the announcements below please see our website.

COMPANY

Company	Update
600 Group - 8.25p	The diversified industrial engineering company has announced a trading update in response to the impact of Covid-19. It had already noted in a trading update on 21 February that trading conditions were more challenging. There was a volatile order intake in both Machine Tools and Industrial Laser Systems, with a number of projects being delayed until the next financial year. More recently, deliveries during March 2020 were affected and the ongoing restrictions create supply issues. Trading results for the year to 28 March 2020 are expected to be broadly in line with expectations. There is great uncertainty over the current year. A number of cost saving measures have been put in place and there is a stop on all non-critical capital expenditure. Overall debt levels remain in line with those at the previous year end and adequate banking facilities are in place. SPECULATIVE BUY.
Avacta - 117p	The company has announced that it has shipped Affimer reagents for Covid-19 antigen testing to its diagnostic test development partners Cytiva and Adeptrix ahead of schedule. Cytiva will work with Avacta to develop a saliva test for mass population screening to diagnose Covid-19 and hopes to have a prototype within a few weeks. Adeptrix is working on another project to develop a Covid-19 laboratory test to run on hospital mass spectrometers. The company has also issued its results for the 17 month period to 31 December although given the stage of the group's development and the more recent events relating to coronavirus these are really irrelevant. Revenue for the period rose to £5.5m (year to 31 July 2018: £2.8m) whilst the loss before tax was £18.1m (year to 31 July 2018: £10.4m). The shares remain a SPECULATIVE BUY.
Carr's Group - 112.5p	Since the release of interim results last month there have been a number of share purchases by directors. Most recently, Finance Director Neil Austin added 4,500 shares to his holding at an average price of 114.48p on 1 May. He had been buying more significant amounts alongside Chief Executive Officer Tim Davies last month and Non-Executive Director Ian Wood also bought 10,000 shares at 116.09p each on 30 April, taking his holding to 30,000. We continue to rate the shares as a BUY.
Flowtech Fluidpower - 71.5p	Results for the year ended 31 December 2019 have been released. Revenue from continuing operations was broadly unchanged at £112.4m versus £112.1m a year earlier. Profit before tax from continuing operations slipped from £6.92m to £4.70m and this meant that diluted earnings per share fell from 8.28p to 6.10p. Dividends have also been suspended. We keep our BUY rating.
G4S - 93p	A trading update has been provided covering the first quarter. Organic growth in revenues was 2.5% but unsurprisingly the company has had to take significant action in response to the Covid-19 pandemic. G4S' services have been designated as essential in all of its major markets and there has been the provision of additional services in some areas. Some sectors will be adversely impacted by the pandemic so steps have been taken to reduce costs. Including the annual savings of £20m expected following completion of the sale of the conventional cash businesses, direct and indirect cost savings of around £100m have been identified for 2020. The US federal social security tax deferral programme is expected to provide a net cash flow benefit of around £50m. This is a solid business and deserves a BUY rating.
Hargreaves Services - 205p	Hargreaves Land has exchanged the first major commercial contract on Unity, a mixed use development site located at Hatfield, South Yorkshire. Unity is a joint venture with regional developer Waystone Limited and consists of 250 hectares of land, of which 60 hectares is allocated for employment and commercial uses with the remainder having planning consent for residential development. The joint venture has exchanged conditional contracts for the sale of a 32 hectare plot to a national retailer for the development of a 75,000 sq metre national distribution centre and training facility. The sale will realise approximately £25m of revenue for the joint venture on legal completion. It is conditional upon the grant of planning permission and construction of a new access road, with legal completion currently expected to be around the middle of 2021. Turning to the impact of Covid-19, all business areas except the Property business are continuing to trade in line with expectations. The planned residential land sales at Blindwells, which were previously expected to complete in May 2020, will not take place in the current financial year. A further update on trading is due out in early June following the end of the current financial year on 31 May. BUY.
ITV - 72.28p	A trading update has been provided for the first quarter of 2020. Total external revenue was down 7% at £694m (2019: £743m). Total ITV Studios revenue was down 11% at £342m (2019: £385m), impacted by the phasing of deliveries and restrictions on working practices due to Covid-19. Broadcast revenue was up 2% at £500m (2019: £489m). ITV total advertising was up 2% and online revenues were up 26%. ITV total viewing was up 2% with very strong growth in online viewing up 75%, simulcast viewing up 112% and reach up 40% on the ITV Hub. ITV main channel's share of viewing was slightly higher at 17.9%, its best quarter since 2009. ITV Family share of viewing was down 2% at 23.6%, partly impacted by the volume of the BBC's news output. We continue to rate the shares as a BUY.
Sainsbury (J) - 195p	The company has released its results for the year to 7 March 2020 and these have revealed that underlying pre-tax profit was down 2% to £586m although the second half of the year saw an increase of 8% after a disappointing first half. Clearly, although these figures look satisfactory the effect of coronavirus on the business has led to increased sales in recent weeks due to panic buying of food and other essentials whilst the uncertainty caused by the pandemic means that any decision on a dividend will be delayed until later in the year. The company is set to benefit from £500m of rates relief following the latest moves by the government to help business in the wake of the pandemic although the company says that it will incur the same amount of additional costs this year as it has been forced to hire additional staff and pay those that are off sick or in isolation. At this stage the shares are a HOLD.
Vertu Motors - 27.65p	A detailed trading update has been provided by the automotive retailer. Following the introduction of the UK Government's social distancing restrictions all retail vehicle sales and aftersales operations were temporarily closed from the close of business on 24 March, with vehicle sales deliveries suspended. On-line and telephone sales operations have continued and an order bank had been built up since 25 March, comprising 825 retail vehicle orders and 749 fleet and commercial orders as at the date of the announcement on 7 May. The majority of the dealership aftersales operations were reopened in late March and have been providing vital service and repair services to key workers, vehicles undertaking essential activities and vulnerable customers who rely on their cars. Van repairs have also represented a significant level of work undertaken. Costs are being managed very closely with the furlough scheme being used to temporarily layoff approximately 80% of staff. Adjusted net debt, excluding used vehicle stocking loans, was £2.8m at 29 February 2020 and a further £10m of the revolving credit facility was drawn in March. BUY.
Vodafone - 122.88p	Results for the year ended 31 March 2020 have been released. Group revenue grew by 3.0% to €45.0bn, supported by improving commercial momentum in Europe. Adjusted EBITDA grew by 2.6% to €14.9bn and free cash flow grew by 12.2% to €4.9bn. Adjusted earnings per share fell from 6.27c to 5.60c. Dividends per share were maintained at 9.00c. This is a solid business which should be resilient despite current market conditions. We keep our BUY rating.
Zytronic - 120p	In the six months ended 31 March 2020 group revenue was £7.4m (2019: £9.5m), impacted by falls in Gaming, Financial and Vending revenues. Profit before tax was £0.5m (2019: £1.4m) and basic earnings per share slipped from 7.4p to 2.5p. No interim dividend was declared due to Covid-19 (2019: 7.6p) but net cash as at the period end was healthy at £12.4m (30 September 2019: £13.1m). The shares are a BUY.

Aggressive Growth Portfolio VII

After the strong rise in the value of the portfolio over the last few weeks, when it has also outperformed both of the benchmark indices, it probably comes as little surprise that the portfolio has hardly moved in value over the last fortnight. Indeed, the modest decline in value over the period means that it has marginally underperformed both benchmarks.

Although much of the world remains in lockdown, the fact that there is now some easing of the restrictions has been a boost to equity markets which seem to have regained some composure, for the moment at least. However, despite the bounce that has taken place over the last few weeks, many investors remain understandably cautious about the future.

Following yet another increase in the share price of Avacta, although at a more sedate rate, we have sold another 1,500 shares at 117p to reduce the holding to 3,500 shares. The disposal has raised net proceeds of £1,737 for a gain of £1,472.

It has been a busy period for company news with Avacta, Sainsbury (J), ITV and Vodafone all making announcements, and these are covered on page 3 as usual.

No dividends have been received during the period and after purchasing shares in the two companies featured in this issue there is £20,564 left on deposit pending investment.

PERFORMANCE SUMMARY			
	12 May 2020	28 April 2020	Gain/(Loss) %
Portfolio Value	£58,982	£59,058	(0.1)
FTSE 100 Share Index	5,994.77	5,958.50	0.6
FTSE All Share Index	3,294.63	3,281.88	0.4

	SECURITY	BUYING PRICE (p)	TOTAL COST (£)	CURRENT PRICE (p)	VALUE (£)	STOP-LOSS LIMIT (p)
3,500	Avacta*	17.5	619	117	4,095	75
1,200	Character Group	255	3,091	277.5	3,330	185
1,750	Sainsbury (J)	192	3,417	195	3,413	145
5,000	ITV	65.38	3,318	72.28	3,614	45
350	PPE Hotel Group	1240	4,405	1190	4,165	875
4,000	Vodafone	111.98	4,546	122.88	4,915	90
8,500	Premier Foods	46.6	4,021	45.05	3,829	38
4,500	DWF Group	84.6	3,864	80	3,600	68
7,000	UP Global Sourcing	54.1	3,844	54.1	3,787	44
215	GlaxoSmithKline	1707	3,725	1707	3,670	1500
£20,564	Cash	-	-		20,564	
				TOTAL	**£58,982**	

Start date: 2 January 2018 with £50,000. Cash includes dividends received of £3,801 *after taking some profit.

GlaxoSmithKline (GSK) - 1707p

SECTOR - PHARMACEUTICALS
RECOMMENDATION - BUY FOR INCOME

Recent Q1 results from GlaxoSmithKline, released on 29 April, were very reassuring. The pharmaceuticals giant has made a good start to 2020 and the nature of the business means that it is in a far better position than most to ride out the Covid-19 pandemic. With so many other companies seeking to preserve cash at the moment, putting pressure on dividend payments, we feel that the shares look very attractive for income seekers.

GlaxoSmithKline is a global healthcare company split into three segments. Pharmaceuticals has a broad portfolio of medicines with commercial leadership in respiratory and HIV. There is a focus on science related to the immune system, use of genetics and advanced technologies. Vaccines has a broad portfolio and pipeline of vaccines, delivering over two million vaccine doses per day to people living in over 160 countries. Consumer Healthcare develops and markets an innovative portfolio of brands in Pain relief, Respiratory, Digestive health, Oral health, Nutrition and Skin health.

In Q1 turnover was £9,090m, with growth delivered by all three businesses. Adjusted earnings per share were 37.7p compared with 30.1p a year earlier. The net cash inflow from operating activities for the quarter was £965m (2019: £663m) and free cash flow was £531m (2019: £165m). The dividend for the first quarter was held at 19p per share and the company currently expects to maintain total dividends for the year at 80p per share, representing a yield of around 4.7% at the current share price. As at 31 March 2020, net debt was £26.7bn, compared with £25.2bn as at 31 December 2019.

When the company announced full year results for 2019 on 5 February it provided guidance with respect to 2020, noting that it anticipated a slight decline in adjusted earnings per share. Since then it has reported a strong first quarter and has maintained the guidance given. However, significant internal and external risks have been noted and it is clear that there is potential for at least some impact from the disruptions currently being experienced around the world. Looking at the long term there are few businesses which are better placed to consistently generate high levels of cash for shareholders. Although capital growth may be modest, the shares are a BUY FOR INCOME.

Share Price: 1707p
Market Capitalisation: £85,642m
2019/20 Share Price Range: 1846p/1375p
Website: www.gsk.com

Year Ending 31 December	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
2019	33,754	8,236	123.9	13.8	80.0	4.7
2020 (est)	35,269	8,375	115.1	14.8	80.0	4.7
2021 (est)	36,248	8,721	117.5	14.5	80.0	4.7

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